

**"Equity Predators:
Stripping, Flipping, and Packing Their Way to Profits"**

Hearing of the Special Committee on Aging

Statement of Senator John Breaux, Ranking Member

March 16, 1998

This hearing focuses on what is, unfortunately, just the latest scam being perpetrated against older Americans. Victims of "predatory lending practices" have often spent a lifetime building equity in their homes. They become vulnerable to unscrupulous lenders because of limited incomes, essentially being tricked into mortgaging what is probably their only tangible asset -- their home -- for the false promise of quick and easy cash. Because of limited cash flow, they are tempted to refinance their homes to consolidate debt or make needed home repairs or improvements.

In recent years, the "subprime" lending market, where credit is extended to high-risk borrowers, has greatly expanded. Some may argue that this is only in response to increasing demand for credit and that subprime lenders are in fact providing a service to those who cannot simply walk into a bank and get a low, fixed-rate loan. Nevertheless, from what we will hear today, the subprime industry appears to be ripe for abuse.

Many lenders in the subprime market are reputable, and they are not the subject of this hearing. We are here to discuss those who are thriving in the market by taking advantage of unsuspecting, needy, and elderly homeowners.

What makes these bad apples different from the good guys in the industry is that their loans are made *not* on the borrower's ability to repay, but rather on the equity in their home. And, it takes cash -- not a home -- to repay a loan.

Some of these lenders in the subprime loan industry seek to profit by taking advantage of some of the weakest, least informed members of our society. Our goal for this hearing is to raise awareness of these kinds of practices and to educate seniors on how to identify and avoid problems before they are drawn into a loan or mortgage they will not be able to repay -- in essence before they lose their homes.

Elderly people who live on a fixed income are easy prey for lenders who seek to take advantage of them. An older homeowner is a predatory lender's dream. After years of making timely mortgage payments, these men and women have built up a wealth of equity in their homes. And they usually get by on fixed incomes and may not have enough income to make necessary repairs to their homes or to make purchases of high-cost necessities such as prescription drugs. They are equity rich, but cash poor. A home equity loan is similar to dangling a bundle of cash in front of them.

Predatory lenders use deceptive and intimidating practices to coerce homeowners into accepting loans that will ultimately prove detrimental to their financial situation. These practices include "stripping," extending a loan based upon the equity accrued in a home, or making a loan that is intended to fail; "flipping," continually inducing the borrower to refinance his or her loan while the loan balance grows larger each time and the borrower takes more and more through high points; and "packing," tacking on unnecessary or overpriced credit insurance onto the loan balance.

Predatory lending can strip our seniors who have worked hard their entire lives of their one form of financial security -- their homes. These homes represent their past, their hard work, perhaps where they raised their children.

It is easy for critics of a hearing like this to say simply: "Buyer beware." While that is important to bear in mind, it doesn't mean that we shouldn't also raise awareness about this issue and the deception involved. All borrowers -- particular seniors -- should know about these predatory lending practices and be equipped with the knowledge and tools they need to avoid financial disaster.

Unlike a bad financial decision made when one is young, mortgaging a home the wrong way late in life usually cannot be corrected if it goes sour.